

Mr. David Reese
Chief Financial Officer
Arizona Department of Health Services
Division of Behavioral Health Services
150 N. 18th Avenue, Suite 200
Phoenix, AZ 85007

December 30, 2009

FINAL

Revision to original Title XIX Program Capitation Rates Certification dated May 4, 2009

Subject: Revised Behavioral Health Services State Fiscal Year 2010 Capitation Rates for the Title XIX Program

Dear Mr. Reese:

The State of Arizona Department of Health Services (ADHS), Division of Behavioral Health Services (BHS) contracted with Mercer Government Human Services Consulting (Mercer), part of Mercer Health & Benefits LLC, to develop revised actuarially sound capitation rates for use during the last six months of the State Fiscal Year 2010 (SFY10) contract period. SFY10 began July 1, 2009, and ends June 30, 2010. The revised rates, with an effective date of January 1, 2010, reflect the net impact of changes to two underlying assumptions, each of which is described in more detail later in this document. The actuarially sound rates accompanying this document reflect adjusted rates applicable for the time period from January 1, 2010, through June 30, 2010. They represent a weighted 3.6 percent rate *reduction* when compared to the current rates. On an annual basis this results in over \$43 million of combined state and federal savings.

Previously, Mercer developed annual SFY10 actuarially sound rates and provided BHS with a rate development and certification letter dated May 4, 2009, which included an exhibit detailing the SFY10 rates. The overall rate-setting methodology used in the development of these revised actuarially sound rates has not changed from the method utilized in the original SFY10 rate development.

This document presents an overview of the analyses and methodology used in Mercer's revised rate development.

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Rate methodology

Overview

The revised capitation rates for the BHS Title XIX Regional Behavioral Health Authority (RBHA)-based managed care program were developed in accordance with rate-setting guidelines established by the Centers for Medicare and Medicaid Services (CMS).

May 4, 2009 certification elements

There have been no changes made to the following sections of the May 4, 2009 certification letter:

- Introduction/Background
- Overview of Rate-Setting Methodology (with the exceptions of the new six month effective date period and the final imbedded RBHA capitation rates portions)
- SFY09 Adjustment factors
- Trend percentages
- Service Utilization Changes (with the exception of High Needs Children; see below)
- White Mountain Apache Tribal Regional Behavioral Health Authority
- Administration and Underwriting Profit/Risk/Contingency load percentages
- Risk Corridors and Performance Incentive
- Tribal Fee-For-Service Claims Estimate
- BHS Administration/Risk/Contingency load percentage
- Development of Statewide Capitation Rates

If desired, please refer to the May 4, 2009, certification letter for more detail related to these sections of the certification.

Revisions

There were three changes made to the SFY10 capitation rates necessitating this revision to the original certification. Two of the changes generated an overall budgetary impact. The third change, involving High Needs Children, literally shifted pennies per member per month (PMPM) between RBHAs, but was budget-neutral from an overall standpoint.

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1. Base data

From the May 4, 2009, certification, base data expenses were reduced 5.0 percent for a provider fee schedule (rate) change implemented by BHS on their fee-for-service (FFS) claims for all providers and services. At the time the capitation rates were produced and finalized during February, March and April of 2009, with the then economic climate and the FFS fee schedule reduction, BHS and Mercer believed and assumed reimbursement expectations of the RBHA's contracted providers (including Pharmacy providers) should be lowered. Hence, payments to BHS and the RBHAs were reduced. Given time and additional information, BHS and Mercer believe the assumption surrounding Pharmacy providers should be revised. We have eliminated the 5.0 percent reduction for Pharmacy claims only. This change impact varies by RBHA and population. Overall it generates the following population group rate *increases*: 0.7 percent for Non-CMDP Children, 0.3 percent for CMDP Children, 0.6 percent for SMI Adults, and 0.9 percent for GMH/SA Adults.

2. High Needs Children Service Utilization Changes

Within the rate development model, BHS and Mercer decided to distribute total required dollars for the High Needs Children adjustment based on relative costs by respective RBHA population. With the differing Pharmacy levels from the above base data adjustment slightly altering the relative RBHA costs, there were literally pennies PMPM shifted between RBHAs. The impact is so small by RBHA that it doesn't display in the Non-CMDP Children rates, only in the CMDP Children rates (and there only +/- \$0.05 PMPM maximum). As it's an allocation, the grand totals across all RBHAs don't change.

3. Behavioral Health Penetration – Acuity Adjustment

For enhanced financing stability and consistency, BHS and the RBHAs are paid based upon Medicaid eligibles in contrast to those enrolled in the behavioral health system. At the same time, those enrolled individuals are the ones accessing providers and generating necessary services and expenses. When the ratio (penetration rate) of those enrolled to those eligible remains stable over time, all other rating factors are able to account for actuarially sound cost components. However, when the penetration rate changes (increases or decreases) over time, a separate adjustment is required. We have labeled this as an “acuity” adjustment or factor.

Projections for contract period enrollment, eligibility, penetration and acuity levels were developed by RBHA and population and compared to the corresponding base data period levels as part of the analyses for the original SFY10 capitation rates. While significant

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increases were anticipated at that time for both SFY10 enrollment and eligibility, the massive increase in Medicaid eligibles was not fully anticipated. A November 2009, ADHS report shows a 25.3 percent increase in total eligibles from November 2008, while total enrollees have “only” increased 11.9 percent. Overall the revised projections generate the following population group rate *decreases*: 2.9 percent for Non-CMDP Children, 2.5 percent for CMDP Children, 5.1 percent for SMI Adults, and 5.0 percent for GMH/SA Adults.

Certification of Final Rates

In preparing the rates described and attached, Mercer has used and relied upon enrollment, eligibility, claim, reimbursement level, benefit design, and financial data and information supplied by BHS and the RBHAs. BHS and the RBHAs are responsible for the validity and completeness of this supplied data and information. We have reviewed the data and information for internal consistency and reasonableness, but we did not audit it. In our opinion the data and information used for the rate development process is appropriate for the intended purposes. If the data and information are incomplete or inaccurate, the values shown in this report and associated exhibit may need to be revised accordingly.

Mercer certifies that the revised rates described and attached, including risk-sharing mechanisms, incentive arrangements, or other payments, were developed in accordance with generally accepted actuarial practices and principles, and are appropriate for the Medicaid covered populations and services under the managed care contract. The undersigned actuary is a member of the American Academy of Actuaries and meets its qualification standards to certify to the actuarial soundness of Medicaid managed care capitation rates.

Rates developed by Mercer are actuarial projections of future contingent events. Actual RBHA costs will differ from these projections. Mercer has developed these rates on behalf of BHS to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and accordance with applicable law and regulations. Use of these rates for any purpose beyond that stated may not be appropriate.

RBHAs are advised that the use of these rates may not be appropriate for their particular circumstance and Mercer disclaims any responsibility for the use of these rates by the RBHAs for any purpose. Mercer recommends that any RBHA considering contracting with BHS should analyze its own projected medical expense, administrative expense, and any

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other premium needs for comparison to these rates before deciding whether to contract with BHS.

This certification letter assumes the reader is familiar with the BHS program, Medicaid eligibility rules, and actuarial rating techniques. It is intended for BHS and CMS, and should not be relied upon by third parties. Other readers should seek the advice of actuaries or other qualified professionals competent in the area of actuarial rate projections to understand the technical nature of these results.

If you have any questions on any of the above, please feel free to contact me at +1 602 522 6510 or Sundee Easter at +1 602 522 8547.

Sincerely,

Handwritten signature of Michael E. Nordstrom in cursive script, followed by the text "ASA, MAAA".

Michael E. Nordstrom, ASA, MAAA

MEN/hgl

Copy:
Cynthia Layne, ADHS
Sundee Easter, Mercer
Rob O'Brien, Mercer
Mike Miner, Mercer

Enclosures